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NOTES

FINANCING OF FARMS IN SASKATCHEWAN

Some instructive information relative to financing of farms in the Prairie Provinces of the Canadian West is submitted in the report of the Royal Commission Appointed by the Government of Saskatchewan to Inquire into Ways and Means for Establishing Agricultural Credit. The report recognizes "a great need of cheaper credit, based on sound security, spread over a considerable term of years, applied to assist mixed farming and to improve the lot of the average farmer on a half section."

The Commission issued under date of January 28, 1913, appointing Messrs. John H. Haslam, Charles A. Dunning, and Edward H. Oliver, the latter professor of history and economics in the University of Saskatchewan, to investigate the whole question of agricultural credit in relation to the needs and limitations of Saskatchewan conditions. The inquiry was divided into two tasks: (1) an examination of conditions within the province and (2) an investigation into methods for supplying agricultural credit in Europe and elsewhere. On account of the early departure to Europe of the United States Commission charged with a similar investigation, the Saskatchewan Commission found it necessary to undertake the second task before the first. For the work outside the province, it was decided that Mr. Dunning, together with Mr. A. F. Mantle, deputy minister of agriculture for Saskatchewan, who acted as honorary secretary of the Commission, should investigate, in Great Britain and to some extent on the Continent, the question of possible sources of supply of money. Chairman Haslam and Professor Oliver, meanwhile, studied the rural credit systems of Europe. In this they were associated with the American Commission on Co-operation and Agricultural Credit, Mr. Haslam being made a vice-chairman of the Section on Distribution, and Mr. Oliver a vice-chairman of the Section on Finance or Credit. The examination into provincial conditions was made at a series of public sittings held in Saskatchewan during August last. Mortgages and personal loans were the subjects of most consideration.

It was found that during the fifteen months ended August 15, 1913, there were no less than 1,723 sale and mortgage proceedings under mortgages in Saskatchewan.¹

Probably not less than 2 per cent of the farmers of Saskatchewan were subjected to these proceedings under the conditions that obtained in this period. Of the mortgages in connection with these proceedings 150, or 8.7 per cent, bore an interest rate less than 8 per cent. But 435, or over 25 per cent, bore an interest rate higher than 8 per cent; 261, or over 15 per cent, a rate of 10 per cent or higher; 35, a rate of 12 per cent or higher; and 3, a rate of 15 per cent. And these mortgages were placed at these rates before the present upward trend in interest rates occurred.

The Commission reported that the interest payments on mortgage loans are usually met the year they fall due, payments are seldom pressed for, and renewal of the mortgage is made easy. In fact the present system of payments seems designed to render renewal necessary and debt perpetual. With the final payment so large the borrower can seldom meet it out of the current year's income. The mortgage is not only renewed; the amount of the loan is very frequently increased.

These features of our mortgage system are reprehensible. The mortgage is not calculated to develop business habits nor promptness. It is a document that places the farmer, from the beginning, in an impossible situation. It holds out to him the prospect of confronting a payment which he can never hope to meet. Under the guise of a short-term mortgage there actually exists a system of long-term mortgages, but with this difference, that the farmer is compelled to renew every five years or lose his farm should he fail to meet the mortgage.

Purposes for which loans on mortgages are granted are summarized thus:

1. To consolidate past debts.
2. For machinery. In this matter there has been considerable overstocking, due, as one farmer stated, to the "science of salesmanship."
3. For stock.
4. For building and general equipment.
5. To provide working capital.
6. To buy more land.
7. To "finance trips East" or similar purposes.

In a few cases loan companies will supply funds up to 50 per cent of their own valuation of the property. Trust companies are prohibited, by law, from advancing more than that amount. In the majority of cases, only about 30 per cent of the valuation of the property is granted.

¹ These returns probably are not quite complete.

In judging the Canadian banking system as it affects Saskatchewan, the Commission considered not only the complaints against the banks, but, as well, the services which they have rendered. The summary is as follows:

1. Services rendered by the banks:

a) Until recently they have in general afforded an abundance of credit.
b) They have pushed out into the smaller places and granted credit facilities when the amount of business to be secured immediately did not yield a profit.

c) They have exerted an educative influence upon the business habits of the community and inculcated the virtue of promptness.

2. Complaints against the banks:

a) They have frequently sought to dominate the policy of those businesses to which they have advanced credit.

b) They have sought rather to pay dividends and to support expensive edifices than to afford credit to customers at reasonable rates.

c) They are not controlled within the province and in a time of stress when credit facilities are most required, the banks withdraw them from the western provinces.

d) Their charges for transferring funds are unreasonably high.

e) The rate of interest on loans is unnecessarily large.

f) The interest allowed on deposits is too low.

g) Their sympathies lie with the commercial rather than with the agricultural class.

Relative to interest rates charged by the banks, the Commission says:

The most striking feature in connection with banking rates of interest in this province is not that they have been high, although they have been high, but that they have been so different in various parts of the province. In Regina, Moose Jaw, Saskatoon, and the older and more closely settled parts of the province, where the competition among banks is keen, loans have been made to farmers this summer at 8 per cent. In other districts, good farming districts, like Fillmore or Kindersley for instance, the rate has been regularly 9 per cent. The Commission has scores of cases brought to its attention where the rate was 10 per cent and in some instances even 12 per cent. In districts like Tisdale, Battleford, Radisson, and Shellbrook, there has been nothing less than 10 per cent. In this matter farmers of the province have fared better at the hands of the banks during the recent stringency than have many of our urban population at the hands of individuals who had money to loan. The Commission has encountered no farmer's loan where on amounts greater than \$100 the nominal rate has been higher than 12 per cent, although the Commission is in possession of notes where the minimum charge of \$1 amounts to as much as 18½ per cent.

From the findings of the inquiry there is no doubt that the largest item in the indebtedness of Saskatchewan farmers is the amount which is due to mortgage companies. This amount is placed at \$65,000,000 as a conservative estimate. For the next largest amount, implement companies are responsible. From evidence submitted confidentially to the Commission by only a limited number of branch offices, it is certain that the total indebtedness of farmers to merely six branch offices is \$15,106,726.68. It is not improbable that at present between \$35,000,000 and \$40,000,000 is outstanding for machinery. The amount owing on agreements of sale for land is very considerable. To one company the farmers of this province owe \$5,770,000 and to another, \$3,622,920.45. The amount due for pre-emptions, for horses, for store credit, lumber, bank credit, and for miscellaneous debts, together with that due for the purchase of land, is not less than \$50,000,000. The farmers of Saskatchewan are paying interest on at least \$150,000,000. If this is the case, then their agricultural credit is costing them \$12,000,000 annually. The saving of only 1 per cent in interest would mean the saving to the farming industry of over \$1,500,000 per year. If farmers could secure money at a rate as much as 2 per cent cheaper than at present they could, by making their payments on the amortization plan, discharge their total indebtedness in about twenty-four years' time by simply continuing to pay what they are now paying for interest.

The average indebtedness of Saskatchewan farmers is, perhaps, \$1,500. The average farm of the province consists of about 295 acres. Thus the indebtedness of the farmers is slightly in excess of \$5 per acre of land under occupation at the present time.

Turning to its constructive task, the Commission observes that whether the development of better credit is sought through institutions strictly co-operative, strictly governmental, or partly co-operative and partly governmental, three principles ought to be applied: (1) that loans be provided to farmers only upon unquestioned security and for approved agricultural productive or improvement purposes only; (2) that provision be made for repayment upon the amortization plan; (3) that the aim should be to render a service to the borrower and not to secure a profit to the institution.

Its recommendations look to the creation under provincial government auspices of a Saskatchewan Co-operative Farm Mortgage Association with local associations in affiliation, the central body to raise funds as desired by issuance of mortgage bonds, fully guaranteed by the Saskatchewan government. It is further proposed that mortgage

loans be extended to farmers, who are members of the association, on an amortization basis, to cover a period of not less than fifteen years and not more than thirty-five years, such loans to be limited in amount to 40 per cent of the central commission's valuation of the property to be mortgaged, and the rate of interest to cover only the actual cost of granting the loan and not provide any profit. The liability of the individual member, under the scheme, is limited to 150 per cent of the amount of his loan. The report also contemplates establishment, as soon as possible, under control of the Co-operative Farm Mortgage Association, of a bank for personal credit, in accordance with the provisions of the Canadian Bank Act, with headquarters within the province of Saskatchewan. The scheme is now under consideration by the provincial government.

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WASHINGTON NOTES

REPORT ON WATER CARRIERS

One of the most complete discussions of shipping conditions of recent years has just been issued by the House of Representatives Committee on Merchant Marine and Fisheries as Volume IV of its *Proceedings*, the volume being a "report on steamship agreements and affiliations in the American foreign and domestic trade." The document comprises 459 pages and is a very complete review of facts, many of which were not heretofore readily available, while some have been entirely inaccessible. It appears that the steamship companies, during the investigation of the winter of 1912-13, finally came to the conclusion that their best policy lay in the adoption of a system of absolute frankness, including the filing of most of their pooling agreements with the committee. While the report goes in very great detail into the mechanics of the steamship business and its organization, the chief interest is found in the conclusions arrived at with respect to methods of control of competition. What has been learned on that point as to domestic trade may be summarized somewhat as follows:

1. Control through acquisition of water lines: (a) direct railroad ownership and operation of such lines; (b) railroad ownership through subsidiaries; (c) control by lease; (d) ownership of vessel lines by other vessel lines; (e) joint control of water lines by railroads; (f) control of one water carrier over another or of a railroad over a water carrier;